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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
a New York corporation,
Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Section 106(3) of the Copyright Act gives the copyright owner the exclusive right to distribute copies of a copyrighted work. That right is limited by the "first sale doctrine" in section 109(a) of the Act. Section 602(a) states that importation into the United States without the authority of the copyright owner of copies acquired abroad is an infringement of the exclusive right to distribute copies under section 106(3). The question presented is:

> May a U.S. copyright owner, who itself manufactures, first distributes and sells to a foreign purchaser a consumer product with a copyrighted label, sue a subsequent purchaser of that same product for infringement of its distribution rights under section 602(a) of the Copyright Act — or does the first-sale doctrine contained in section 109(a) bar the lawsuit?

PARTIES TO THE PROCEEDING

All parties in this Court appear in the caption of the case.

The parties have no parent companies or non-wholly owned subsidiaries that have issued shares to the public.

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PETITION FOR WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*, is reported at 98 F.3d 1109 and is reprinted at Appendix A. The opinion of the district court is unreported and is reprinted at Appendix B.

JURISDICTION

This petition seeks review of a judgment of the United States Court of Appeals for the Ninth Circuit entered on October 22, 1996. Petitioner filed a timely petition for rehearing *en banc*, which was denied on December 16, 1996. This petition is filed within 90 days of the entry of such denial, pursuant to 28 U.S.C. §2101(c) and U.S. Supreme Court Rule 13.4. The jurisdiction of this Court to review the judgment of the court of appeals is invoked under 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

The Copyright Act of 1976, 17 U.S.C. §106 provides:

> [T]he owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> . . . .
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of

> ownership, or by rental, lease or lending;
>
> . . . .

The Copyright Act of 1976, 17 U.S.C. §109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The Copyright Act of 1976, 17 U.S.C. §602(a) provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT OF THE CASE

This is an action under the Copyright Act. Jurisdiction in the district court was conferred under 28 U.S.C. §1338(a). This case concerns the ability of a consumer product manufacturer to control the importation and resale of its product bearing a copyrighted label in the United States, after the manufacturer has itself sold these

products for export to a third party. Petitioner bought these products after they had been imported into the United States and was then sued by the copyright owner for copyright infringement under section 602(a) of the Copyright Act. The Third and Ninth Circuits are divided on whether a copyright owner may maintain an action under section 602(a) in these circumstances. The case potentially affects substantial international trade of the United States in products capable of bearing a copyrighted label. It also affects interstate commerce since conduct lawful in the Third Circuit subjects companies to liability for copyright infringement in the Ninth Circuit.

Material Facts

Respondent L'anza Research International, Inc. manufactures and distributes hair care products. Although these products themselves are not copyrightable, L'anza has copyrighted the labels appearing on its products. The validity of the copyright is not in dispute here.

The goods bearing the copyrighted labels that are at issue in this case were made in the United States. L'anza sold them to its United Kingdom distributor, Planetary Eco, at a discounted price of about 35-40 percent off its normal U.S. prices, purportedly because foreign purchasers would not benefit from L'anza's advertising and promotional activities. 98 F.3d at 1111 (App. at A2). Planetary Eco in turn sold them to a distributor called L. Intertrade. *Id.* Petitioner Quality King Distributors, Inc. ultimately purchased and resold the goods in the United States. *Id.* at 1111-12 (App. at A2-A3).

L'anza sued Quality King in the United States District Court for the Central District of California, alleging that

Quality King had violated section 602(a) of the Copyright Act by selling the imported goods without L'anza's authority. In its answer, Quality King raised the affirmative defense that L'anza's claim was precluded by the first sale doctrine of section 109(a). The district court rejected Quality King's defense and entered judgment for damages in an amount to which the parties had stipulated and enjoined Quality King from importing and selling the products.

Ninth Circuit Decision

On appeal, the Ninth Circuit noted that it had not previously decided the precise issue presented in this case. Although it had held in other cases that section 109(a) did not bar a section 602(a) claim where the first sale occurred abroad and involved a *foreign* manufactured product, it had previously "declined to pass upon the question of whether the first sale doctrine would bar an action involving the exportation and later importation of U.S. copyrighted goods originally manufactured in the United States." 98 F.3d at 1113 (App. at A6).

As it had in its earlier section 602 decisions, the Ninth Circuit noted that the relationship of section 602(a) (making unauthorized importation an infringement of the distribution right), section 106(3) (creating the distribution right), and section 109(a) (limiting the distribution right to the first sale) is not clear: "From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." *Id.* (emphasis in original).

The Ninth Circuit resolved the purported ambiguity by ruling that section 602(a) created a right separate

from the distribution right of section 106(3) — or, more particularly, a right not limited by the first sale doctrine of section 109(a): "As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case." *Id.* at 1117 (App. at A14).

The Ninth Circuit acknowledged that the Third Circuit had taken precisely the opposite view. In *Sebastian International Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988),[1] the Third Circuit had held that section 602(a) was limited by the first sale doctrine in almost identical circumstances. As the Ninth Circuit succinctly put it, "[w]e decline to adopt the approach taken by the Third Circuit in *Sebastian*." 98 F.3d at 1114 (App. at A8).

In doing so, the Ninth Circuit relied on one of the alternative interpretations it had previously adopted in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, __ U.S. __, 115 S.Ct. 1315, 131 L.Ed.2d 197 (1995), and *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206, 112 S.Ct. 2997, 120 L.Ed.2d 873 (1992), observing "that § 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case." 98 F.3d at 1114 (App. at A9).

As an additional reason not to follow the holding of the Third Circuit in *Sebastian*, the Ninth Circuit here said that the first sale doctrine did not bar L'anza's claim because L'anza sold its products to Planetary Eco at a "reduced price" and therefore did not receive "full value" for the products. The Ninth Circuit also acknowl-

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[1] The opinion in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988), is reprinted at Appendix D.

edged that its "full value" analysis conflicted with the Third Circuit's decision in *Sebastian*. Nevertheless, the Court expressly refused to follow *Sebastian* stating that:

> [T]he *Sebastian* court appears to have missed the crucial point that unauthorized imports cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold *through authorized channels in the U.S. market.* This is just the evil that Congress sought to prevent in adopting §602(a).

Id. at 1117 (App. at A15) (emphasis in original).

REASONS FOR GRANTING THE WRIT

I. A RIPE AND DIRECT CONFLICT EXISTS BETWEEN THE THIRD AND NINTH CIRCUITS CONCERNING THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a).

A. Nature Of The Conflict.

As the court below itself noted, its decision places the Ninth Circuit in a direct conflict with the Third Circuit, the only other circuit court that has considered the relationship between sections 109(a) and 602(a). In *Sebastian*, an American manufacturer itself made and sold consumer products (as here, hair care products) in bottles bearing labels with a copyrighted design. The manufacturer-copyright owner in *Sebastian* itself distributed the articles with the copyrighted labels. It sold and

exported them to a South African company, which shipped the products back to the United States for resale. The district court held the South African company liable under section 602(a), and the Third Circuit reversed. It held that, in these circumstances, "a first sale **by the copyright owner** extinguishes any right later to control importation of those copies." 847 F.2d at 1099 (App. at D12) (emphasis added). *Sebastian* thus holds that a first sale by the copyright owner itself of exported products establishes a defense under section 109(a) to an action under section 602(a).

The Ninth Circuit's decision in this case squarely holds the opposite. Although the copyright owner here, L'anza, itself made the goods and itself distributed the goods to a foreign purchaser via a first sale, the Ninth Circuit ruled that section 602(a) applied and that the first sale doctrine of section 109(a) did not. 98 F.3d at 1115, 1117 (App. at A9, A15). Directly acknowledging that its decision conflicted with the approach taken by the Third Circuit, the Ninth Circuit stated: "We decline to adopt the approach taken by the Third Circuit in *Sebastian*." *Id.* at 1114 (App. at A8).

B. Conflict In Rationales.

In reaching their opposing results, the two circuits necessarily (and explicitly) disagree about the meaning of the statutory relationship among sections 106(3), 602(a) and 109(a). The disagreement is about (1) the statutory language, and (2) Congress' intent.

1. Meaning of Statutory Language.

The Third Circuit in *Sebastian* considered the relationship between section 602(a) and sections 106(3) and

109(a). Like the Ninth Circuit in this case, it acknowledged that two constructions were possible:

> The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right — one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. . . .
>
> The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. . . . Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

847 F.2d at 1097 (App. at D8-D9).

The *Sebastian* court recognized that section 602(a), by its terms, makes certain importations not merely an infringement of the exclusive right to distribute copies, but infringement of the exclusive right to distribute copies "under section 106." *Id.* at 1099 (App. at D12-D13), quoting 17 U.S.C. §602(a). Moreover, as are all rights granted under section 106(3), the additional distribution right (involving importation) under section 602(a) is constrained by the first sale doctrine in section 109(a),

which applies "[n]otwithstanding the provisions of section 106(3)." 17 U.S.C. §109(a); *see also* 17 U.S.C. §106 (rights granted by §106 are "[s]ubject to sections 107 through 120"). The *Sebastian* court therefore adopted the second, less sweeping interpretation that reconciles the three sections: "a first sale *by the copyright owner* extinguishes any right later to control importation of those copies." 847 F.2d at 1099 (App. at D12) (emphasis added).

The Ninth Circuit in this case began with the same premise, that the statutory language permits two interpretations: "From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." 98 F.3d at 1113 (App. at A6) (emphasis in original). However, unlike the Third Circuit, the Ninth Circuit chose the first, more sweeping construction: even where the copyright owner has made the first distribution and sale, "§ 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case." *Id.* at 1114 (App. at A9).

In essence, the Ninth Circuit, unlike the Third, reads the text of section 602(a) as creating an "importation right" superior even to the general right of distribution granted by section 106(3) of the Copyright Act — superior because it is not limited by the first sale doctrine of section 109(a). The Ninth Circuit has made a blanket and incorrect assumption — that unless section 602(a) is viewed as a "right" separate from the distribution right of section 106(3) and, more importantly, separate from section 109's first sale limitations on the distribution right, section 602(a) becomes "meaningless." 98 F.3d at 1114 (App. at A9).

The *Sebastian* court found meaning in the statutory language of section 602(a), which says that importation without the authority of the owner of copyright is an infringement of the exclusive right to distribute copies "under section 106." 17 U.S.C. §602(a). According to the Third Circuit, section 602(a) deals with importation of copies that have been made and distributed by someone other than the copyright owner — by licensees, for example. When it is the copyright owner itself that first distributes a copy, it has exercised its distribution right under section 106(3); in the Third Circuit's view, the copy distributed by the copyright owner then becomes subject to the first sale doctrine. 847 F.2d at 1098-99 (App. at D12).

To support its view, the Third Circuit noted the concern expressed in the legislative history of section 602 about imports of copies first distributed by foreign assignees and licensees of the U.S. copyright owner. "The hearings revealed the copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries." *Id.* at 1097 (App. at D8). After reviewing decisions that had applied section 602(a) to goods made under a license, the Third Circuit emphasized how the case before it differed from situations where goods were made abroad by an unrelated licensee: "Sebastian produced and sold the same copies which it now seeks to control." *Id.* at 1098 (App. at D11). The court noted that prior decisions finding liability under section 602(a) had each involved a first sale by someone other than the U.S. owner of copyright. *Id.*[2]

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[2] *See Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F.Supp. 47 (E.D.Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3rd Cir. 1984) (first sale by unrelated Philippine licensee not a defense in action under §602(a)); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J. 1987) (continued)

The Ninth Circuit has in a prior decision addressed the distinction between foreign licensees and copyright owners in the making of a first sale.[3] Here, the Ninth Circuit simply noted that the *Sebastian* case had focused on whether the goods were "sold by the copyright owner" and rejected that distinction: "the *[Sebastian]* Court held that the first sale doctrine bars an action under §602(a) . . ., so long as the goods were manufactured in the United States *and sold by the copyright owner*. . . . We decline to adopt the approach taken by the Third Circuit in *Sebastian*." *Id.* at 1114 (App. at A8) (emphasis added).

These opposing approaches have a common departure point — a copyright owner itself controlling and making the initial distribution of a particular copy of a copyrighted work. When the U.S. owner of copyright itself exercises the distribution right, that right is exhausted upon the first sale. In case of a subsequent importation and sale of the same copy, section 602(a) no longer can give rise to "an infringement of the exclusive right to distribute copies . . . ." 17 U.S.C. §602(a). The right was already exercised for that particular copy and there

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(fn. continued)
(New Zealand licensee); *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal. 1986) (books first distributed in United Kingdom by unrelated party); *Nintendo of America, Inc. v. Elcon Industries, Inc.*, 564 F.Supp. 937 (E.D.Mich. 1982) (Japan licensee).

[3] In its earlier decision in *Parfums Givenchy, Inc., supra*, the Ninth Circuit found no "dichotomy between sales by the copyright holder itself and by its licensees." 38 F.2d at 483, n.9. However, the two cases which the Ninth Circuit cited in support of this finding, *United States v. Atherton*, 561 F.2d 747, 751 (9th Cir. 1977), and *Platt & Munk Co. v. Republic Graphics*, 315 F.2d 847, 854 (2nd Cir. 1963), were decided under the 1909 Copyright Act. Section 602(a) was adopted in the 1976 Copyright Act.

is nothing left to be infringed. This analysis, however, does not apply when only a foreign licensee or assignee has distributed the copy abroad. In that case, section 602(a) will give rise to an infringement action since the U.S. copyright owner has not exercised its right of distribution with respect to that particular copy.

2. Purported Intent to Give "Full Value."

The Third and Ninth Circuits also diverged on whether sufficiency of the price (or reward) upon the first sale should affect the outcome of whether the distribution right has been exercised. The *Sebastian* decision considered the role of economic reward in the Copyright Act generally: "[Copyright] monopoly privileges are 'neither unlimited nor primarily designed to provide a special private benefit.' . . . Ultimately, the copyright law regards financial reward to the owner as a secondary consideration." 847 F.2d at 1095 (App. at D3-D4), *quoting Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984).

Moreover, the "secondary" importance of reward under the Copyright Act is reflected in the first sale doctrine itself: a first sale occurs when " 'there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.' " 847 F.2d at 1096-97 (App. at D7) (citation omitted). The doctrine prevents the copyright owner from realizing an even greater reward by controlling the disposition of copies after the first authorized sale, even if the copy has been exported and then imported:

> With respect to future distribution of those copies in this country [after importation], clearly the copyright owner [Sebastian] already has received its reward through the purchase price.
>
> Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate award' than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Id. at 1099 (App. at D12).

In contrast, the Ninth Circuit below viewed *maximization* of reward as a central purpose of section 602(a):

> '[a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.'

98 F.3d at 1116 (App. at A14) (quoting *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F.Supp.

1378, 1391 (C.D.Cal. 1993); parenthetical in Ninth Circuit text).

In incorrectly rejecting *Sebastian*'s reasoning, the Ninth Circuit said that "the *Sebastian* court appears to have missed th[is] crucial point" since unauthorized imports drive down the price of goods sold through authorized U.S. channels. *Id.* at 1117 (App. at A15). This, the Ninth Circuit held, "is just the evil that Congress sought to prevent in adopting § 602(a)."[4] *Id.*

This "full value" rationale also conflicts with a long line of cases which have held that a "first sale" occurs even where the first sale is at a reduced rate and the copyright owner later attempts to control the channels of distribution for certain copies of his work in the hope of obtaining a higher price for other copies of the same work. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908) (copyright owner may

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[4] The Ninth Circuit acknowledged, however, that the legislative history contains no explicit reference to the interaction between sections 602(a) and 109(a). 98 F.3d at 1113, 1116 (App. at A6, A12-A14). Instead, the Court relied on scenarios discussed by representatives of the printing and recording industries in meetings occurring some 13 years before section 602(a) was even enacted, by a different Congress. *Id.* at 1116 (App. at A12-A14). As this Court has noted, statements such as these, which are not made by a member of Congress or included in the official Senate and House Reports, are to be accorded no significance. *Kelly v. Robinson*, 479 U.S. 36, 107 S.Ct. 353, 93 L.Ed.2d 216 (1986). Moreover, in the forward prepared by the Committee of the Judiciary accompanying the comments relied upon by the Ninth Circuit, the Chairman of the Committee stated specifically: "In approving this material, the Committee neither approves or disapproves of any of the views expressed therein." Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision (Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Comm. Print 1963).

not control resale price of books, even to ensure that the price of used books does not drive down the sale price of unsold books remaining in the copyright owner's possession); *Harrison v. Maynard, Merrill & Company*, 61 F. 689 (2nd Cir. 1894) (copyright owner sold pages of book at a reduced rate to salvage companies); *Independent News Co. v. Williams*, 293 F.2d 510 (3rd Cir. 1961) (copyright owner sold copies at salvage); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1151 (9th Cir.), *cert. denied*, __ U.S. __, 117 S.Ct. 190, 136 L.Ed.2d 128 (1996) ("there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale").

In the recently decided *Denbicare* case, the copyright owner stipulated to the sale of copyrighted products by a bankruptcy trustee subject to the restriction that the buyers be enjoined from reselling the products in the United States and Canada. *Id.* at 1150. The copyright owner consented to the injunction with these restrictions. The restrictions were violated. The copyright owner then argued that despite its consent there was no first sale because it "received no economic reward as copyright owner from the sale." *Id.* As noted, the Ninth Circuit rejected this argument, holding that "there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale." *Id.* at 1151.

In the present case, L'anza consented to the first sale by making that sale. Like the copyright owner in *Denbicare*, L'anza sought restrictions (in this case, on where its purchaser's purchaser could resell the goods). The Ninth Circuit has now embraced "adequacy of reward" as a prerequisite to the first sale doctrine, by

ruling that consent must be accompanied by receipt of "full value" for the goods.

This "full value" qualification originates from *dictum* in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2nd Cir. 1963).[5] There a copyright owner contracted with a manufacturer to make a copyrighted product. Following a quality dispute, the copyright owner refused to pay and the manufacturer, claiming self help, sold the goods to others. The Second Circuit noted that in past cases, the first sale doctrine had been applied where it could be said that the copyright owner had received a "reward" from the sale. *Platt & Munk Co.*, 315 F.2d at 854. However, it ruled that the first sale doctrine depended on whether the manufacturer was entitled to sell the goods under its contract with the copyright owner, and remanded the case for such an adjudication. *Id.* The Ninth Circuit in our case relied on this "reward" *dictum* from *Platt & Munk*. 98 F.3d at 1115 (App. at A11-A12).[6]

In summary there are two linchpins to the Ninth Circuit's analysis below, each of which is in conflict with the reasoning of the Third Circuit in *Sebastian* and inconsistent with settled principles of copyright law. First,

[5] The *Denbicare* decision expressly rejected the so-called "reward" *dictum* of *Platt & Munk* holding that this rationale is "irrelevant" where the copyright owner's sale is a voluntary one. *Denbicare, supra*, 84 F.3d at 1151. The Ninth Circuit also rejected the "reward" *dictum* in *Platt & Munk* in the criminal context in *United States v. Atherton, supra*, 561 F.2d at 751-752. The Ninth Circuit has now taken a new course.

[6] It also cited but one other decision, *Parfums Givenchy, Inc. v. C & C Beauty Sales*, 832 F.Supp. 1378 (C.D.Cal. 1993), which in turn relied on *Platt & Munk*. The Ninth Circuit also cited 1 Paul Goldstein, *Copyright*, §5.5 at 588-89 (1989), which also relies only on the *Platt & Munk dictum*.

although section 602(a)'s language purports to set forth only an "infringement of the exclusive right to distribute . . . under section 106" which is exhausted by a first sale under section 109(a), the Ninth Circuit reasoned that section 602(a) would be rendered "meaningless" if it were so read. Unlike the Third Circuit, the Ninth Circuit found no meaning in the distinction between a sale by an unrelated third party and a sale by the copyright owner itself of the same copy that was subsequently imported. Second, the Ninth Circuit has engrafted onto sections 106(3), 109(a) and 602(a) an underlying objective of profit maximization — that until the copyright owner has received a full reward for the copy sold, it has not exhausted its right of distribution.[7]

C. This Court Should Not Wait To Resolve The Conflict.

This case presents an appropriate occasion to resolve the conflict concerning the relationship among sections 106(3), 109(a) and 602(a). The facts are similar in all relevant respects to those in *Sebastian*. In both cases, the goods were both manufactured and first sold and distributed by the U.S. owner of copyright, not by a licensee or assignee. Both cases involved goods which themselves were not copyrighted, but which simply had a copyrighted design on the package or label. Yet the

[7] In addition, the "full value" analysis espoused by the Ninth Circuit would create considerable commercial burdens on retailers who bought genuine gray market products. It would seem that such retailers would have to determine whether the gray market product had first been sold, upstream, for "full value" in order to know whether they risked liability for copyright infringement for reselling the product.

Third Circuit and Ninth Circuit reached opposed results relying upon opposed reasoning.

Other courts of appeals are not likely to shed further light on the relationship among sections 106(3), 109(a) and 602(a). Both the Third and the Ninth Circuits identified the same problem concerning that relationship: whether section 602(a)'s classification of certain importations as an infringement "under section 106" leaves available the defense of section 109(a) — a defense that is by its terms available "[n]otwithstanding the provisions of section 106(3)." Future cases will not find anything different.

Moreover, it is not likely that other circuits will have an opportunity to weigh in on this issue. Not surprisingly, every court of appeals decision under section 602(a) since *Sebastian* has been in the Ninth Circuit.[8] That is where copyright owners will bring future suits. The legal press has reported that the Ninth Circuit has "staked out a position as the most protectionist appeals court on this issue." Nat'l L. J., January 27, 1997, at C10. "Should it not be adopted nationally, the L'anza rule is likely to make the 9th Circuit a mecca for U.S. copyright holders who wish to bar gray-market goods from the United States." *Id.* at C11.

This problem involves a fundamental area of federal law, the Copyright Act, which potentially affects most forms of commerce — from computer software to any consumer product (like the hair care products here) that could have its label design copyrighted. Because section 602(a) concerns "importation," the issue affects an

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[8] There have been five such Ninth Circuit decisions. *BMG Music, supra*; *Parfums Givenchy, supra*; *Denbicare U.S.A., supra*; *Disenos Artisticos E Industriales, S.A., v. Costco Wholesale Corporation*, 97 F.3d 377 (9th Cir. 1996); and the present case, *L'anza*.

important aspect of international trade. The conflict between this case and *Sebastian* is not trivial, or one for which any risks of an early resolution by this Court will outweigh the costs of delay

II. THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a) INVOLVES AN IMPORTANT QUESTION OF FEDERAL LAW WITH BROAD COMMERCIAL AND POLICY IMPLICATIONS.

A. Impact On Commerce And New Litigation.

The Ninth Circuit's ruling has broad commercial implications. By the simple expedient of copyrighting a label or package design, any producer of any consumer product can control all import competition in its product in the United States — particularly price competition. The volume of international trade and commerce into the United States of such parallel imports (or gray market goods) exceeds $10 billion annually. *See* Gilson, *Trademark Protection and Practice*, §4.05(1) (ed. 1996) (relying on 1985 studies). The Ninth Circuit's decision puts businesses nationwide in an untenable position. Conduct which is lawful in the Third Circuit subjects a company to liability for copyright infringement in the Ninth Circuit. Indeed, companies with any presence in the Ninth Circuit can be sued by forum shopping plaintiffs for lawful acts occurring in the Third. 28 U.S.C. §1400(a) (Copyright venue exists where "the defendant or his agent . . . may be found."); *see Yee v. City of Escondido*, 503 U.S. 519, 538, 112 S.Ct. 1522, 1534, 118 L.Ed.2d 153 (1992) ("Forum shopping is . . . of particular concern."). This uncertainty applies to all who purchase or resell genuine gray market products.

Uniformity on this important issue is required so that an important segment of business can know how to conduct itself. Given the exceptional amount of commerce affected and the certain prospect of substantial future litigation, this Court should resolve the debate.

B. Impact On The Balance Between Copyright And Competition.

The copyright laws create limited monopolies, statutory exceptions to the normal rules of free and open competition. The extent of distribution rights under the Copyright Act necessarily affects the balance between competition, on the one hand, and the incentive to creativity underlying the copyright monopoly, on the other. Where, as here, a court of appeals engrafts upon the Copyright Act policies and purposes that do not appear from the text of the statute, the balance Congress intended may be upset.

Respect for the role of competition is implicit in the first sale doctrine itself. The doctrine "finds its origins in the common law aversion to limiting the alienation of personal property." *Sebastian, supra*, 847 F.2d at 1096 (App. at D6). Even before the first sale doctrine was first codified in 1909, our copyright laws were construed as not allowing the "restriction upon the subsequent alienation of [a copyrighted article] after the [copyright] owner had parted with the title to one who had acquired full dominion. . . ." *Bobbs-Merrill Co. v. Straus, supra*, 210 U.S. at 350, 28 S.Ct. at 726.[9]

[9] *See Harrison v. Maynard, Merrill & Co., supra*, 61 F. at 691; *Doan v. American Book Co.*, 105 F. 772, 776 (7th Cir. 1901).

When first codifying the doctrine in the 1909 Copyright Act, and then reenacting it as section 109(a) of the 1976 Copyright Act, Congress purported simply to restate existing law.[10] In 1990, Congress reaffirmed the integrity of the first sale doctrine:

> The first sale doctrine represents an important balancing of interests. The doctrine prohibits copyright owners from controlling the terms and conditions of further distribution of lawfully made copies of a work once the initial authorized distribution of those copies has taken place. . . . *Congress has, in the past, resisted proposals to alter the balance achieved in section 109, requiring those seeking amendments to make a compelling case for change.*

H.R. Rep. No. 735, at 7, 1990 U.S.C.C.A.N. at 6938. (emphasis added).

The policies that the Ninth Circuit has engrafted on the Copyright Act implicate this "important balancing of

[10] H.R. Rep. 2222, 60th Cong. 2d Sess. 28-29 (1909) *reprinted in* Brylawski and Goldman, 6 Legislative History of the 1909 Copyright Act (1976) at S19 ("Section 41 is not intended to change in any way existing law. . . . [I]t would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"); H.R. Rep. 1476, 94th Cong. 2d Sess. 79, *reprinted in* 1976 U.S.C.C.A.N. at 5693 ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy . . . the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means").

interests." They also raise an important question of statutory construction: Absent a clear congressional command, should a statute be construed to restrict free market principles and limit competition? Congress has established "competition as the fundamental principle governing commerce in this country." *Lafayette LA. v. Louisiana Power & Light Co.*, 435 U.S. 389, 398, 98 S.Ct. 1123, 1129, 55 L.Ed.2d 364 (1978). By the same token, "copyright is . . . an exception to the general public policy against restraints of trade." *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (competition invoked to limit claims of copyright infringement when the copyright is misused).

This Court has, for example, invoked the policy favoring competition to limit claims under the patent laws and copyright: "[T]his Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition" are grounds not to "expand patent rights." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530-31, 92 S.Ct. 1700, 1708, 32 L.Ed.2d 273 (1972).[11] It has similarly limited the scope of claimed rights under the Copyright Act by recourse to the competition policies of antitrust law with the reach of the Copyright Act. *United States v.*

[11] Patent law is relevant to interpreting copyright law "because of the historic kinship between patent law and copyright law." *Sony Corp., supra*, 464 U.S. at 439, 104 S.Ct. at 787. Courts have long construed the patent laws to include a first sale doctrine, even though Congress has not codified it there. *Adams v. Burke*, 84 U.S. 453, 456, 21 L.Ed. 700, 17 Wall. 453 (1873) (upon sale, a patented item "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."); *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1092-93, 86 L.Ed. 1408 (1942); *Hensley Equipment Co. v. Esco Corp.*, 383 F.2d 252, 263 (5th Cir. 1967).

Paramount Pictures, Inc., 334 U.S. 131, 158-59, 68 S.Ct. 915, 929-30, 92 L.Ed. 1260 (1948).

In this case the Ninth Circuit has shifted the boundary between where intellectual property claims specified by Congress end and where principles of competition begin. The Ninth Circuit has held that copyright owners now are entitled to reap full value, maximize their potential reward from a distribution of any copy. This new rule will alter the decisions of all businesses that deal in imported goods with a copyrighted label or feature. Such a foray by the courts into the realm of macro-economics, unsupported by clear statutory language, should not go unreviewed.

CONCLUSION

The petition should be granted.

DATED: March 14, 1997.

Respectfully submitted,

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APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

L'ANZA RESEARCH INTERNATIONAL, INC.,
Plaintiff-Appellee,
v.
QUALITY KING DISTRIBUTORS, INC., a New York Corporation,
Defendant-Appellant.

No. 95-56447
D.C. No. CV-94-00841-JSL
OPINION

Appeal from the United States District Court
for the Central District of California
J. Spencer Letts, District Judge, Presiding

Argued and Submitted
August 6, 1996—Pasadena, California

Filed October 22, 1996

Before: Dorothy W. Nelson, Thomas G. Nelson, and Sidney R. Thomas, Circuit Judges.

Opinion by Judge D. W. Nelson

OPINION

D.W. NELSON, Circuit Judge:

This case involves a copyright infringement claim brought by L'anza Research International, a manufacturer and distributor of hair care products, against Quality King Distributors pursuant to 17 U.S.C. § 602(a). Section 602(a) prohibits the importation of U.S. copyrighted goods acquired outside of the United States without the authorization of the copyright

owner. Quality King appeals the district court's order specifying issues existing without substantial controversy and granting summary judgment in favor of L'anza. It also appeals the district court's order granting a permanent injunction prohibiting Quality King from importing and selling certain L'anza hair care products in the United States. We affirm.

FACTUAL AND PROCEDURAL BACKGROUND

L'anza manufactures and distributes hair care products. In order to establish and maintain its reputation for selling high quality products, L'anza requires that its U.S. distributors sell L'anza products only to authorized vendors such as beauty salons and colleges. L'anza also sells its products abroad through "master distributors," who may sell L'anza products within defined geographical areas outside of the United States. These overseas distributors pay approximately 35 to 40% less for L'anza products than do domestic distributors because they do not receive the benefit of L'anza's extensive advertising and promotional activities conducted in the United States but rather, must market the products themselves. L'anza asserts that it has never authorized any distributor to import into the United States L'anza products that have been sold abroad.

In February, 1994, L'anza discovered that a number of its products were being sold at Vessey Drugs, in Carmel, California. Because in every shipment some L'anza bottles are marked to allow tracing, L'anza was able to determine that the products being sold at Vessey Drugs had been purchased from a distributor in Malta, L. Intertrade, and imported (without L'anza's authorization) by Quality King Distributors. Originally, the products had been manufactured in the United States and then sold through L'anza's distributor in the United Kingdom, Planetary Eco, to L. Intertrade. L'anza sold the products at a substantial discount with the understanding that they would be distributed in Malta, and possibly Libya. Instead, L. Intertrade sold the products to Quality King Distributors, which purchased in their entirety the three shipments that had been sent to the United Kingdom[1] and imported the products back into the United States without L'anza's permission. It then sold them to a number of buyers, including Vessey Drug.

The record indicates that a L'anza representative purchased the following products from Vessey Drug: Styling Foam, Multi-Mist, Super Quatre Spray, and Remede Shampoo. However, the shipments that Quality King purchased from L. Intertrade and imported to the United States also contained a number of other L'anza products. L'anza owns the copyright for the labels on many of these products, the registration for which was issued on January 7, 1994 (Copyright Registration TXU 593-178). Copyright Registration TXU 593-178 lists the following products: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturizing Treatment, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus, Re-Balance Styling Foam. L'anza also requests that the court take judicial notice of copyright registrations issued July 21, 1995 for the same products as are listed in Copyright Registration TXU 593-178 plus Curls & Color Moisturizing Shampoo.

L'anza filed a complaint against Quality King and others who were selling L'anza products that they had purchased from Quality King alleging that they had violated § 602(a) of the 1976 Copyright Act by importing products to which L'anza owned the copyright without L'anza's permission.[2] Quality King responded by denying that it had violated

[1]It is not clear from the record whether the products actually reached Malta. However, the evidence in the record indicates that the products were, in fact, shipped to the United Kingdom.

[2]L'anza also brought a tort action against Quality King in state court, which went to trial in April, 1995. In May, the jury returned a verdict in favor of L'anza, finding by clear and convincing evidence that Quality King had acted with malice and fraud against L'anza.

L'anza's copyright and raising two affirmative defenses: 1) the first sale doctrine of 17 U.S.C. § 109(a); and 2) unclean hands arising from L'anza's intent to sell the products at issue to Libya in violation of the Libyan trade embargo.

L'anza then moved for an order specifying issues without substantial controversy and sought summary judgment on Quality King's first sale defense as well as a determination that L'anza owned all right, title and interest in copyright registration No. TXU 593-178. *Id.* The district court granted L'anza's motion on May 4, 1995. On July 25, 1995, the district court also granted L'anza's motion for a permanent injunction enjoining Quality King from importing and selling the following L'anza products that had been sold previously outside of the United States: Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturizing Shampoo, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus and Re-Balance Styling Foam. Finally, on September 29, 1995, the district court entered judgment in the amount of $132,616 in damages (stipulated by the parties to avoid trial) in favor of L'anza.

On appeal, Quality King challenges the district court's judgments on a number of grounds, asserting that: 1) the district court erred in rejecting Quality King's first sale defense and declining to adopt the Third Circuit's holding in *Sebastian Int'l Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093 (3d Cir. 1988); 2) the district court erred in finding that L'anza had provided adequate evidence to show that Quality King had acquired the L'anza products outside of the United States and without L'anza's authorization, both prerequisites of § 602(a); 3) the district court erred in rejecting Quality King's unclean hands defense; 4) the district court erred because L'anza does not own the copyright to some of the products that Quality King imported, and therefore does not have standing to bring copyright claims for all of the products that are the subject of its lawsuit; 5) the district court's injunction should be vacated because it is overbroad in that it

enjoins lawful as well as unlawful behavior and because it does not provide Quality King with adequate notice of when it is violating the injunction.

STANDARD OF REVIEW

A grant of summary judgment is reviewed de novo. *Jesinger v. Nevada Federal Credit Union*, 24 F.3d 1127, 1130 (9th Cir. 1994). We review a district court's determinations as to party standing de novo. *Barrus v. Sylvania*, 55 F.3d 468, 469 (9th Cir. 1995). The scope of injunctive relief is reviewed for an abuse of discretion or application of erroneous legal principles. *Dexter v. Kirschner*, 984 F.2d 979, 982 (9th Cir. 1992).

ANALYSIS

I. *The First Sale Doctrine and Section 602(a)*

[1] Quality King asserts that the district court erred in holding that L'anza's claim under § 602(a) of the 1976 Copyright Act is not barred by the first sale doctrine of § 109(a). Section 602(a) provides in relevant part, that:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a). Section 602(a), thus, gives the copyright owner a distribution right under § 106. Section 106 provides in relevant part, that:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

. . .

> 3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;

17 U.S.C. § 106(3). The first sale doctrine, however, limits the rights embodied in § 106(3), providing that:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a). From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a).

[2] In resolving the question of whether the first sale doctrine applied in this case, the district court was faced with an issue of first impression. The Ninth Circuit has held that the first sale doctrine *does not* bar an action under § 602(a) where there has been a lawful sale abroad of foreign manufactured U.S. copyrighted goods. *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 480-481 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *see also BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992). However, it has explicitly declined to pass upon the question of whether the first sale doctrine would bar an action involving the exportation and later importation of U.S. copyrighted goods originally manufactured in the United States. *BMG Music* 952 F.2d at 319 n.3.

The district court relied upon the Ninth Circuit rule that " 'the words "lawfully made under this title" in § 109(a) grant

first sale protection only to copies legally made and sold in the United States.' " District Court Order filed July 7, 1995 [hereinafter, District Court Order] (quoting *Drug Emporium*, 38 F.3d at 481 (quoting *BMG Music*, 952 F.2d at 319)). It found that although the copies at issue were made in the United States, they were not sold in the United States, and therefore, the first sale doctrine did not apply. It reached this conclusion based on the fact that L'anza intended that the products would be sold exclusively outside of the United States, explaining that:

> [b]ecause L'anza's copyrighted works were sold to a foreign distributor for distribution in foreign markets, the court finds that the sale occurred outside the United States . . . . To hold otherwise would undermine the stated purpose of § 602 . . . and the principle that a copyright owner is entitled to realize the full value of each copy upon its disposition.

District Court Order. The court also noted that Quality King's argument that the goods were sold in the United States because that is where title passed from L'anza to Planetary Eco (the U.K. distributor) was "irrelevant," explaining that

> [w]hen title passes does not necessarily indicate a "sale" for the purposes of the "first sale" defense to copyright infringement. *See Cosmair, Inc. v. Dynamite Enterprises*, 1985 WL 2209, *3 (S.D.Fla. 1985) ("it is not clear whether the passing of title rather than the intent of the parties is determinative of whether there was a sale in the United States . . .").

Id. at 756 n.5.

In holding that the first sale doctrine did not apply in this case, the district court declined to follow the approach taken by the Third Circuit in *Sebastian Int'l Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093 (3d Cir. 1988). In *Sebastian*, a man-

ufacturer of hair care products, Sebastian International, entered into an oral contract with the defendant to distribute its products to salons in South Africa but not elsewhere. *Id.* at 1094. The products were shipped to South Africa but then were reshipped to the United States and sold. *Id.*

The *Sebastian* court noted that the facts in that case were distinguishable from a number of district court cases in which courts had found that the first sale doctrine did not apply, where "the copies were produced abroad and the sales occurred overseas." *Id.* at 1098. However, it went on to note that "the place of sale is not the critical factor in determining whether section 602 governs." *Id.* at 1099. The court reasoned that:

> Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Id. Thus, the court held that the first sale doctrine bars an action under § 602(a) *even if the goods were sold outside of the United States*, so long as the goods were manufactured in the United States and sold by the copyright owner. *Id.* at 1098.

We decline to adopt the approach taken by the Third Circuit in *Sebastian*. However, we emphasize that our holding does not depend upon the words "lawfully made under this title" in § 109(a), which have been interpreted by this and other courts to grant first sale protection only to copies legally made and sold in the United States. *See BMG*, 952 F.2d at 319; *Drug Emporium*, 38 F.3d at 481; *see also T.B. Harms*

Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1583 (D.N.J. 1987); *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D.Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984). Rather, we rely upon the alternative ground on which *BMG* and *Drug Emporium* were decided, that § 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case. *See BMG*, 952 F.2d at 319; *Drug Emporium*, 38 F.3d at 481.

The Logic of Scorpio

The conclusion that the words "lawfully made under this title" in § 109(a) apply only to goods manufactured and sold in the United States was first articulated in *Columbia Broadcast Systems v. Scorpio Music Distributors*. 569 F.Supp. at 49. There, Scorpio Music Distributors had purchased phonorecords from a corporation that had manufactured them legally in the Philippines. Scorpio then imported the records without the authorization of CBS, which owned the copyrights to the records, and CBS brought an action pursuant to § 602(a). The court rejected Scorpio's argument that the action was barred under § 109(a) because the records had already been the subject of a lawful first sale. The court reasoned that:

> Defendant's contentions would be more persuasive were it not for the phrase — lawfully made under this title — in § 109(a). I conclude that the section grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here. The protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states. Absent a clearly expressed legislative intent to the contrary, statutory language must be recognized as conclusive.

Id. (citations omitted). In addition, the court said, "construing § 109(a) as superseding the prohibition on importation . . . would render § 602 virtually meaningless." *Id.* The Ninth Circuit adopted the approach of *Scorpio* in *BMG Music*. 952 F.2d at 319.

While many courts, including the Ninth Circuit, have followed *Scorpio*, the consensus among legal scholars is that the reasoning of *Scorpio* is flawed. *See* 2 Nimmer on Copyright, § 8-12[B][6] at 8-157 n. 95 (1996); 1 Paul Goldstein, Copyright § 5.6.1, at 604 (1989); Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J. Int'l L. & Pol. 113, 130 (1984). Courts, too, have expressed uneasiness about *Scorpio*'s reasoning. *See, e.g., Drug Emporium*, 38 F.3d at 482 n.8; *Sebastian*, 847 F.2d at 1098 n. 1. In fact, the district court explicitly rejected the approach of the *Scorpio* court in *Parfums Givenchy v. C & C Beauty Sales*, 832 F.Supp. 1378, 1386 (C.D.Cal. 1993).

The *Scorpio* court appeared to rely upon two different justifications for finding that § 109(a) does not apply outside of the United States: 1) it is generally presumed that the U.S. Code does not apply extraterritorially, and 2) the words "lawfully made under this title" were intended to refer only to copies made and sold in the United States. *Scorpio*, 569 F.Supp. at 49. As the *C & C* court explained, neither justification is well-founded:

> Absent a clearly expressed statutory intent to the contrary, courts should presume that the United States Code applies only to actions "occurring within, or having effects within" the United States. . . . However, the unauthorized importation into and distribution within the United States of copyrighted goods clearly has an effect within the United States — it prevents the United States copyright owner from realizing the full value of each copy released into the United States market with his authorization.

> Thus, the judicial presumption against the application of United States statutory law does not apply in cases such as *BMG Music*, *Scorpio*, or the present case . . . . [Moreover], the legislative history of Section 109(a) reveals that the phrase "lawfully made under this title" . . . makes no reference to the location of the manufacture or sale of the goods.

832 F.Supp. at 1386-1387 (citations omitted). However, the *C & C* court agreed with *Scorpio*'s holding based on the alternative ground offered by *Scorpio* that § 602(a) would be rendered meaningless if the first sale doctrine were found to supersede the ban on importation. *Id.* at 1387; *see also BMG Music* at 319. This rationale justifies the district court's decision in this case as well.

Congressional Intent Underlying Sections 106(3), 109(a) and 602(a)

[3] The *C & C* court explained that the distribution right in § 106(3) allows the copyright owner to decide "when, under what circumstances, and for what price he will release copies of his work to the public." 832 F.Supp. at 1388. However, once the copyright owner has voluntarily sold his work to the public, the new owner may transfer or sell the copy without the permission of the copyright owner, pursuant to § 109(a). This first sale doctrine "presupposes that the copyright owner will be able to realize the full value of each authorized copy . . . upon its first sale to a purchaser." 1 Goldstein, Copyright, § 5.5. at 588-589. Thus, once the copyright owner has received his full value for the copy, the policy goal of protecting the copyright holder gives way to the policies disfavoring limitations on the alienation of property. *C & C*, 832 F.Supp. at 1388. *See also Platt & Munk, Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) ("the ultimate question embodied in the 'first sale' doctrine [is] whether or not there has been such a disposition of the article that it may fairly be

said that the patentee (or copyright proprietor) has received his reward for the use of the article").

[4] The prohibition of § 602(a) against unauthorized importation of goods acquired outside of the United States was adopted in response to concerns expressed by members of the printing and recording industries concerning their lack of ability to control importation of copyrighted goods. Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision (Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 212 (Comm. Print 1963)) [hereinafter, 1963 Discussion and Comments]. Prior to the adoption of the 1976 Copyright Act, it was forbidden to import any "piratical" copies of a work, that is, copies made without the authorization of the copyright owner. Copyright Act of 1909 § 106. Section 602(a), in contrast, was intended to prohibit the importation not only of piratical copies but also copies that were lawfully made. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785.

[5] The legislative history of the 1976 Copyright Act contains no explicit reference to the interaction between §§ 602(a) and 109(a). However, the scenarios that were discussed by representatives of the printing and recording industries in assessing § 602(a) suggest that § 109(a) was not intended to limit the scope of § 602(a). A typical scenario was described by one publisher as follows:

> frequently you run into a situation where there is a copyright proprietor in the United States and copies of the same work . . . produced in a foreign country, may be shipped over here without violating any contract of the U.S. copyright proprietor. This is either because . . . the [foreign] publisher *sold it* to an individual who in turn shipped it over here . . . or because of some network of contract rights . . . .

1963 Discussion and Comments at 213 (emphasis added). A music industry representative noted that:

> We've had a similar situation with respect to motion picture prints, which are sent [from the United States] all over the world — legitimate prints made from the authentic negative. These prints get into illicit hands. They're stolen, and there's no contractual relationship. . . . Now [these] are not piratical copies. . . . They could not come within [section 106 of the 1909 Copyright Act].

Id. In other words, importation of copies from *outside* of the United States was undermining the right guaranteed to U.S. copyright holders in § 106(3) to control the distribution (including the price and quantity) of copies distributed through authorized channels *within* the United States. As a result, copyright owners were deprived of the "full value" to which they were entitled for the copies sold within the United States, even though the imported copies may have been the subject of a valid first sale.

The *C & C* court explained this point as follows:

> [The] "full value" — the price at which the copyright owner is willing to sell copies of his work — depends on market conditions and, in today's global economy, varies from country to country. For example, the owner of a copyright in a sound recording may demand $10 each to sell 1 million phonorecords of that sound recording in the United States, but may be willing to sell another 1 million phonorecords for $7 each in Australia in order to enter the market there or for some other legitimate business purpose. If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price,

> and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords initially released into the United States market.

C & C, 832 F. Supp. at 1390-91. Thus, the *C & C* court concluded,

> [a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391.

[6] Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here, where the copyright owner sold U.S. manufactured goods at a substantial discount, with the intent that they would be sold exclusively outside of the United States (Quality King concedes that the goods were to be sold outside of the United States). Just as in the example offered by *C & C*, the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case.

[7] The *Sebastian* court arrived at a contrary conclusion because it found that the copyright owner received the full value for the products that it sold to the South African distributor, in the form of the purchase price. 847 F.2d at 1099. It may be that in *Sebastian*, the hair care products were not sold at a substantial discount, as they were in this case. Nonetheless, the *Sebastian* court appears to have missed the crucial point that unauthorized imports cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold *through authorized channels in the U.S. market*. This is just the evil that Congress sought to prevent in adopting § 602(a).

Finally, we reject the argument made by Amicus Curiae American Free Trade Association ("AFTA") that changes made by Congress in 1990 concerning the application of the first sale doctrine with respect to computer software indicate that Congress intended that § 602(a) should be limited by § 109(a). Specifically, AFTA argues that when Congress amended § 109(e) of the copyright law to overrule the Fourth Circuit's decision in *Red Baron-Franklin Park v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990), it implicitly endorsed the district court's opinion in that case.[3] The court rejected this argument in *Drug Emporium*, 38 F.3d at 482-483 n.9, and so do we.

The district court in *Red Baron* followed (and expanded upon) the rule of *Sebastian*, holding that the first sale doctrine barred an action pursuant to § 602(a) claiming unauthorized

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[3]Section 109(e) provides that:

> Notwithstanding the provisions of sections 106(4) and 106(5), in the case of an electronic audiovisual game intended for use in coin-operated equipment, the owner of a particular copy of such a game lawfully made under this title, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment, except that this subsection shall not apply to any work of authorship embodied in the audiovisual game if the copyright owner of the electronic audiovisual game is not also the copyright owner of the work of authorship.

17 U.S.C. § 109(3).

importation of U.S. copyrighted computer circuit boards that were lawfully manufactured and sold in Japan and then imported to the United States. *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q. 2d 1901, 1903 (E.D.Va. 1988), *rev'd*, 883 F.2d. 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990). However, the Fourth Circuit reversed on other grounds, finding that the first sale doctrine did not apply to the public performance right under § 106(4). The court did not address the relationship between the first sale doctrine and § 602(a) because this issue was not raised on appeal. 883 F.2d at 278. Thus, in amending § 109(e), Congress was concerned about the relationship between the first sale doctrine and § 106(4), not the relationship between the first sale doctrine and § 602(a). *See* H.R.Rep.No. 101-735, 101st Cong., 2d Sess. 9, *reprinted in* 1990 U.S.C.C.A.N. 6935, 6938-40.

II. *Whether Quality King Violated Section 602(a)*

[8] Even if the first sale doctrine does not bar L'anza's § 602(a) action, Quality King contends that L'anza failed to establish that Quality King actually violated § 602(a). Quality King argues that L'anza did not demonstrate that 1) the products at issue were acquired outside of the United States; and 2) they were imported without L'anza's authorization. Both assertions lack merit.

"Acquired outside of the United States"

Quality King asserts that the goods at issue in this case were not "acquired outside of the United States" as required by § 602(a) because when L'anza sold the products to its U.K. distributor, Planetary Eco, title to the goods passed in the United States. This argument is flawed. Quality King appears to conflate the question of whether there was a "first sale" in the United States with the question of whether the goods were "acquired outside of the United States" for the purposes of § 602(a). These two inquiries are not necessarily the same. In fact, it is not clear from the statute which point in the chain

of acquisition the requirement that a good be "acquired outside of the United States" relates to. Because there are no cases which squarely hold that a good was "acquired outside of the United States" in violation of § 602(a) where the goods were manufactured in the United States, this too is a question of first impression.

[9] We find that the copies were acquired outside of the United States for two reasons. First, the record indicates that Quality King purchased the L'anza products from a subdistributor in Malta, that the products did, in fact, leave the United States in three shipments to the United Kingdom, and that they were destined for Malta.[4] Thus, this case is distinguishable from *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996). In *Denbicare*, the plaintiff itself had imported the products at issue from its foreign manufacturer, and the products were being held in a foreign trade zone in San Francisco when the sale occurred. 84 F.3d at 1145. The court held that a foreign trade zone is part of the United States, and therefore, that the products were not "acquired outside of the United States" for the purposes of § 602(a). *Id.* at 1149. Therefore, the court did not reach the issue of the interaction between § 602(a) and the first sale doctrine.

[10] Second, we reject the argument that the goods were not acquired outside of the United States because the *first* sale occurred in the United States (even assuming that this is true). Such an approach would, *de facto*, limit the right created in § 602(a) by the first sale doctrine. For the reasons stated in the preceding section, this would be contrary to congressional intent.

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[4]As both parties appear to have conceded in the briefs that the L'anza products left the United States in three shipments, we do not address Quality King's unsupported assertion, raised for the first time at oral argument, that the products never left the United States.

"Without L'anza's authorization"

Quality King also asserts that L'anza's § 602(a) claim should fail because L'anza did not produce admissible evidence that the products were reimported without L'anza's authorization. Specifically, Quality King argues that L'anza should have produced a "master agreement" between Planetary Eco and L. Intertrade (the distributor in Malta) forbidding the importation of the L'anza products. Alternatively, it argues that L'anza should have produced evidence that the products were marked "for export only."

[11] Section 602(a), by its plain terms, places the burden on the defendant to prove that the allegedly infringing goods were imported *with* the authorization of the U.S. copyright owner. L'anza produced affidavits from the heads of L'anza and Planetary Eco stating that it was always the intent of both parties that the goods would be sold outside of the United States. In fact, Quality King concedes that the goods were to be sold outside of the United States. Further, in an affidavit, the president of L'anza stated that L'anza had never authorized the importation of the goods at issue in this case. Quality King does not even *argue* that the importation of these goods was authorized, much less present any evidence of authorization. Thus, we reject this argument.

III. *Quality King's "Unclean Hands" Defense*

[12] Quality King also argues that L'anza's action should be barred because of its "unclean hands." According to Quality King, L'anza had unclean hands because it exported the goods at issue in this case with the intent that they should ultimately be shipped to Libya, in violation of Executive Order 12543 (Jan. 7, 1986) and 31 C.F.R. § 550.409. Quality King relies in support of its argument upon the affidavit of Robert De Lanza (Founder and Chairman of the Board of Directors of L'anza), in which he states that the products were sold to L. Intertrade "for sale in Malta and possibly Libya."

[13] Pursuant to 31 C.F.R. § 550.409, "[e]xports of goods . . . from the United States to third countries are prohibited if the exporter knows, or has reason to know that . . . [t]he goods are intended for transshipment to Libya . . . without coming to rest in a third country . . . ." Here, it is undisputed that L'anza intended that the products would come to rest in a third country, that is, Malta. Hence, L'anza did not violate the trade embargo against Libya and we reject Quality King's unclean hands defense.

IV. *Standing*

Quality King asserts that L'anza lacked standing because it did not present copyright registration forms for a number of the products that were included in the shipments to Malta and that were ultimately imported by Quality King. A copyright owner wishing to bring an action for infringement must demonstrate that he has registered the work with the Copyright Office, or at least, deposited an application for registration with the appropriate fee to the Copyright Office. 17 U.S.C. § 411(a).

It is true that L'anza has not provided copyright registrations for some of the products that Quality King imported. However, L'anza's complaint did not necessarily allege violations with respect to these products. Rather, the only products listed by name in L'anza's complaint were: Super Quatre; Multi-Mist; Lavenda; Biotane; Vitro; Remede; Curls & Color Moisture Treatment; Curls and Color Moisturizing Shampoo; Re-Balance Leave-In Conditioner; Re-Balance Shampoo Plus; and Re-Balance Styling Foam. Of these, the only product that is not included on Copyright Registration TXU 593-178 is Curls & Color Moisturizing Shampoo. In its supplemental excerpt of record, however, L'anza provided a copy of the copyright registration for this product as well, of which it requested judicial notice in the district court.

[14] To the extent that L'anza's complaint may have purported to relate to products that were not included in Copyright Registration TXU 593-178,[5] the district court declined to exercise jurisdiction in its order of July 6, 1995. In that order, the district court held that "L'anza owns all right, title, and interest in U.S. copyright registration No. TXU 593-178." Thus, the district court only adjudicated the claim with respect to the products for which L'anza clearly had standing. L'anza also had standing with respect to all of the products covered by the district court's orders of July 25 and September 29, 1995. These orders included the products listed in copyright registration No. TXU 593-178 as well as Curls & Color Moisturizing Shampoo, for which L'anza presented a valid copyright registration. We therefore hold that L'anza has standing with respect to all of the products covered by the district court's orders.

V. *Breadth of Permanent Injunction*

[15] Quality King asserts that the district court's injunction must be reversed for several reasons: 1) because L'anza did not demonstrate a continued likelihood of infringement; 2) because the injunction forbids lawful behavior by enjoining even the importation of L'anza products *with* L'anza's authorization; 3) because it is difficult for Quality King to determine which products violate the injunction, given that

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[5]L'anza's first amended complaint is vague as to which products it actually alleges copyright infringement, referring throughout the complaint to "L'anza products" and only listing specific products in a single paragraph:

> Plaintiff is the exclusive maker and seller of L'anza hair care products in the United States and the remainder of the world. These products include, but are not limited to, the following L'anza hair care products: Super Quatre; Multi-Mist; Lavenda; Biotane; Vitro; Remede; Curls & Color Moisture Treatment; Curls & Color Moisturizing Shampoo; Re-Balance Leave-In Conditioner; Re-Balance Shampoo Plus; and Re-Balance Styling Foam.

[First Amended Complaint, 1 ER: 8]

imported products are not marked and Quality King may not be able to trace their origin. Quality King has failed to demonstrate that the district court abused its discretion or applied an erroneous legal standard. *See Dexter v. Kirschner*, 984 F.2d 979, 982 (9th Cir. 1992).

Continued Likelihood of Infringement

"[A]s a general rule, a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations." *Universal Studios, Inc. v. Sony Corp. of America*, 659 F.2d 963, 976 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984); *See also* 3 Nimmer § 14.06[B] at 14-101 (1996). Here, L'anza presented evidence that Quality King still possessed L'anza products in its inventory and that it intended to sell them. Thus it appears that there is a threat of future infringement and the district court did not abuse its discretion.

Lawful Behavior Enjoined

Quality King asserts that the injunction is overbroad because it enjoins Quality King from importing L'anza products with L'anza's permission. Because there appears to be little likelihood that L'anza would ever grant such permission to Quality King, this assertion is speculative and does not support Quality King's argument that the district court abused its discretion.

Unfair Burden

Finally, Quality King argues that the injunction places an unfair burden on it because of the difficulty of determining the origin of particular L'anza products. In its support, it points to a Third Circuit decision in which the court held that "[b]road, non-specific language that merely enjoins a party to obey the law or comply with an agreement . . . does not give the restrained party fair notice of what conduct will risk

contempt." *Epstein Family Partnership v. Kmart Corp.*, 13 F.3d 762, 771 (3d. Cir. 1994). Quality King's reliance upon the rule of *Epstein* is misplaced. There, the burden arose from the language of the injunction itself. Here, in contrast, it is not the vagueness of the injunction that gives rise to a burden. On the contrary, the injunction describes the enjoined conduct quite clearly. Instead, the burden arises from the difficulty of complying with the injunction, that is, the time and expense associated with determining the origin of L'anza products before purchasing them. However, the injunction provides a mechanism for verifying that L'anza products are not illegally imported, according to which

> Quality King may send to L'anza any L'anza product in its original carton that it intends to buy, sell or dispose of and L'anza shall inform Quality King within ten days of receipt as to whether the particular L'anza product had previously been sold by L'anza within the United States.

Furthermore, Quality King has cited no authority for the proposition that an injunction is invalid if compliance is costly. Thus, we reject Quality King's argument that the injunction should be lifted because it is unduly burdensome.

CONCLUSION

Quality King seeks reversal of the district court's grant of summary judgment and injunction in favor of L'anza Research International, arguing that L'anza's action under 17 U.S.C. § 602(a) is barred by the first sale doctrine and unclean hands. Moreover, it argues, L'anza did not establish that Quality King actually violated § 602(a). Finally, Quality King asserts that this court should reverse because L'anza lacks standing and the injunction is unduly burdensome.

We hold that the first sale doctrine does not bar liability under § 602(a) in this case. To hold otherwise would violate

congressional intent. We also reject Quality King's arguments that 1) it did not violate § 602(a) in the first place; 2) L'anza's action is barred by unclean hands; and 3) L'anza lacked standing. Finally, we reject Quality King's arguments concerning the scope of the injunction.

AFFIRMED.

APPENDIX B

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FILED
JUL 7, 1995
Clerk, U.S. District Court
Central District of California
By Deputy

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(d).

L'ANZA RESEARCH INTERNATIONAL,
Plaintiff,
v.
QUALITY KING, ET AL.,
Defendants.

CV 94-0841 JSL

AMENDED ORDER

The motion of plaintiff L'Anza Research International, Inc. (hereinafter "L'Anza") for an order specifying issues that exist without substantial controversy as to defendant Quality King Distributors, Inc., came for hearing regularly on April 17, 1995. On May 4, 1995, the Court entered an order granting plaintiff's motion. In the order, the Court specified that L'Anza owns all right, title, and interest in U.S. copyright registration No. TXU593-178, and that the first sale doctrine in 17 U.S.C. § 109(a) does not bar liability as to Quality King, if otherwise proven in this case. The following amended order explains the Court's rationale for its holding.

I. BACKGROUND

Plaintiff L'Anza, a California corporation, manufactures hair care products in the United States and distributes them both in the United States and abroad. For consumers in the United States, L'Anza sells its products exclusively through certain authorized domestic distributors, which include professional beauty salons, professional barber salons, and colleges. For consumers outside the United States, L'Anza, sells its products to foreign distributors at a discount approximately 35% to 40% below the prices charged to the domestic distributors. According to the distribution agreements, L'Anza authorizes the foreign distributors to sell the products in certain defined geographical areas outside the United States and does not authorize them to import any of the products into the United States.

On January 7, 1994, L'Anza obtained a copyright on the instructions and other visual material on the labels of its various products under registration No. TXU593-178. The copyrighted material covered by this registration include some of the products that are the subject of this lawsuit: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturing Treatment, Curls & Color Moisturing Shampoo, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam.

L'Anza has sued defendant Quality King, Inc. (hereinafter "Quality King"), a New York corporation, for importing and/or selling L'Anza products in violation of L'Anza's exclusive copyright distribution rights. L'Anza alleges that hair care products that were sold to its United Kingdom distributor, Planetary Eco, Ltd. (hereinafter "Planetary") for shipment to another distributor, L. Intertrade Limited (hereinafter "L. Intertrade"), for sale in Malta, were imported to the United

States in violation of the distribution agreement between Planetary Eco and L. Intertrade. L'Anza contends that some of the products that were sold to L. Intertrade were imported into the United States where they passed through the stream of commerce until they were purchased by Quality King in the ordinary course of its business. Quality King concedes that it purchases L'Anza products in the course of its business but denies that it violated any copyright laws.

Specifically, Quality King asserts that the "first sale" defense embodied in 17 U.S.C. § 109(a) provides a complete defense to any copyright infringement action against it. The Court disagrees with this assertion. If the L'Anza goods sold by Quality King are traceable to goods imported into the United States without L'Anza's authorization and their labels are covered by plaintiff's copyright registration, defendant Quality King is liable for copyright infringement under 17 U.S.C. § 602(a) and the first sale defense does not apply.

II. ANALYSIS

A. The First Sale Doctrine and the Importation Right

The owner of a registered copyright has the "exclusive rights" to authorize or distribute copes of a copyrighted work to the public. 17 U.S.C. § 106(3);[1]

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[1] Section 106 provides in relevant part:

> Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

Parfums Givenchy v. Drug Emporium, 38 F.3d 477, 480 (9th Cir. 1994), *cert. denied*, 1995 WL 36258 (Mar. 6, 1995). Under the "first sale" doctrine, however, a sale of a copy "lawfully made under this title" terminates the copyright holder's authority to interfere with subsequent sales or distribution of that particular copy. 17 U.S.C. § 109(a).[2] Section 109(a) thus provides a defense to liability under § 106(3) to lawful purchasers of copies of copyrighted materials so long as the copies were "lawfully made under this title." *Parfums Givenchy*, 38 F.3d at 480.

Section 602(a) provides that the unauthorized importation of copies of U.S. copyrighted materials acquired abroad is an infringement of the exclusive distribution rights provided in § 106. 17 U.S.C. § 602(a).[3] This section "deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785.

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2 Section 109(a) provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

3 Section 602(a) states:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonographs of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.

Several courts, including the Ninth Circuit, have analyzed the relationship between the first sale defense in § 109(a), the importation right in § 602(a), and the exclusive distribution right in § 106(3). In the context where the infringing works were manufactured and sold abroad, the Ninth Circuit has held that "[t]he words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." *Parfums Givenchy, supra*, 38 F.3d at 481 (holding that retailer who bought infringing products manufactured and sold abroad had no first sale defense against § 602(a)), *quoting BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S.Ct. 2997 (1992) (holding that defendant who manufactured and sold copyrighted works abroad had no first sale defense against § 602(a)).

In this case, the copyrighted works that were imported into the United States without L'Anza's authorization were manufactured in the United States and then sold to a foreign distributor. The Ninth Circuit has declined to consider whether the first sale defense applies in a case involving these facts. *See BMG Music, supra*, 952 F.2d at 319 n.3.[4] Because L'Anza's copyrighted works were

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4 The Third Circuit decided this issue in *Sebastian International v. Consumer Contacts (PTY)*, 847 F.2d 1093 (3d Cir. 1988). In *Sebastian*, the Third Circuit held that a United States manufacturer that had sold its goods with copyrighted labels to a foreign distributor was barred by the first sale doctrine from establishing infringement through an unauthorized importation. Much like this case, the plaintiff in *Sebastian* manufactured its products in the United States and sold and shipped them to a foreign distributor, who then shipped the goods back to the United States in violation of its distribution agreement. *Id.* at 1094. The Third Circuit rejected the idea that the place of sale is a critical factor in determining whether § 602(a) governs and found that a first sale had occurred that extinguished any right later to control importation of the copies. *Id.* at 1098-99.

sold to a foreign distributor for distribution in foreign markets, the Court finds that the sale occurred outside the United States.[5] The Court holds that, regardless of where the copies were manufactured originally, if the copies are sold outside the United States (or, in § 602(a) terms, "acquired abroad"), the first sale defense does not extinguish the right later to prohibit unauthorized importation of those copies. To hold otherwise would undermine the stated purpose of § 602, which is to provide copyright owners with the right to prevent the unauthorized importation of articles acquired abroad that were initially manufactured under the copyright owner's authority. *See* 17 U.S.C. § 602(a).

The rationale provided by the district court in *Parfums Givenchy, Inc. v. C & C Beauty Sales*, 832 F. Supp. 1378 1390-91 (C.D. Cal. 1993), for its holding that the first sale defense does not apply for works manufactured and sold abroad applies equally in this case. The district court in *Parfums Givency* explained that allowing the first sale doctrine to be a valid defense for goods manufactured and sold abroad would undermine the purpose of § 602 and the principle that a copyright owner is entitled to realize the full value of

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5 In this case, defendant argues that the goods were manufactured and sold in the United States and therefore the first sale doctrine provides a defense. Plaintiff argues that the goods were manufactured in the United States but sold abroad, and therefore the first sale doctrine does not apply. To determine where the sale occurred, the parties rely in part on analyses about when title to the goods passed between L'Anza and its foreign distributor, Planetary Eco. The Court believes that analysis to be irrelevant to the decision. When title passes does not necessarily indicate a "sale" for the purposes of the "first sale" defense to copyright infringement. *See Cosmair, Inc. v. Dynamite Enterprises*, 1985 WL 2209, *3 (S.D. Fla. 1985) ("[I]t is not clear whether the passing of title rather than the intent of the parties is determinative of whether there was a sale within the United States. . . .").

each copy upon its disposition.[6] *Parfums Givenchy*, 832 F. Supp. at 1390-91. Where goods are manufactured and sold in the United States, the copyright owner has released voluntarily the copies into the United States market, and has received the full value to which she or he is entitled for them. *Id.* Likewise, where the copies are sold to foreign markets at a lower price for legitimate business reasons, the copyright owner also has received the full value of those copies. If, however, the same copies sold abroad at lower prices are imported into the United States and now compete with the United States priced copies, the copyright owner is prevented from receiving the full value to which she or he is entitled for a copy initially released in the United States. *Id.* This unauthorized importation effectively circumvents the copyright owner's domestic distribution right. *Id.*

In this case, although the works were manufactured in the United States and sold abroad, the same rationale applies. The initial placement of the copy in a certain market should determine where the product is "sold" or "acquired" for purposes of § 602(a). The copies L'Anza sold to its U.K. distributor were intended to be distributed to foreign markets and never were intended to be returned to the United States market. If L'Anza is forced to compete with those copies in the United States, its domestic distribution rights are circumvented just as completely as if the copies had been both manufactured and sold abroad and then imported without authorization. No logical distinction exists between the *Parfum Givenchy* case and this one.

Congress enacted § 602(a) to provide a copyright owner protection "where the copies or phonorecords

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6 The *Givenchy* court defines "full value" as "the price at which the copyright owner is willing to sell copies of his work." *Givenchy*, 832 F. Supp. at 1390.

were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights. As already said, the mere act of importation in this situation would constitute an act of infringement and could be enjoined." H.R. Rep. No. 1476 at 170, *reprinted in* 1976 U.S.C.C.A.N. at 5786. The legislative history makes no reference to the place of manufacture of the goods. Instead, the emphasis is on "the mere act of importation" of copies whose distribution would infringe the copyright owner's exclusive rights.

The proper construction of § 602(a), therefore, is that Congress intended to protect the domestic copyright holder's right to distribute copies in the United States without having to compete with "piratical" copies or "lawfully made" copies imported without the copyright holder's authority. Congress could not have envisioned that a law passed to protect the domestic income of a copyright owner and encourage the influx of foreign currency could be circumvented by the copyright holder's decision to manufacture the copy in the United States rather than abroad. Congress also could not have envisioned that the first sale doctrine could create a situation where the copyright holder must compete in the United States against its own copies or refrain from selling its copies at different prices for different markets.

The recent Ninth Circuit case, *Sebastian International v. Longs Drug Stores*, 95 D.A.R. 5848 (9th Cir. May 9, 1995), which holds that the first sale doctrine prevents liability for the resale of a trademarked product, is inapposite. Although *Sebastian International* also involved the sale of "gray market" goods, plaintiffs in that case filed a trademark infringement claim. The Ninth Circuit analyzed the purpose of trademark protection (protecting against the likelihood of consumer confusion), and held that nothing in the Lanham Act suggested that Congress intended to provide producers

of trademarked products a method to control the resale of its products or to circumvent the first sale rule. *Id.* at 5848-49. Copyright protection, on the contrary, specifically contemplates protection of the distribution of copyrighted works through the exclusive distribution right of § 106(3) as well as the importation right of § 602(a). The Ninth Circuit's discussion of the relationship between the first sale doctrine and the trademark laws has little relevance to the relationship between the first sale doctrine and the copyright laws.

Sales abroad of foreign manufactured U.S. copyrighted material do not terminate the U.S. copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a). *Parfums Givenchy, surpa*, 38 F.3d at 482 n.8. Sales abroad of domestic manufactured U.S. copyrighted material should be given no less protection. Nothing in the legislative history of § 602(a) or the language of the statute supports differential treatment of copies depending on the location of their manufacture.

II. CONCLUSION

Having reviewed the papers filed in connection with this matter, having heard oral argument, and being fully apprised of the relevant facts and law,

IT IS HEREBY ORDERED that the motion of plaintiff L'Anza Research International, Inc. be GRANTED. The Court finds the following issues to exist without substantial controversy:

(1) L'Anza owns all right, title, and interest in the United States copyright registration No. TXU593-178, effective January 7, 1994.

(2) The first sale defense in 17 U.S.C. § 109(a) of the Copyright Act does not bar liability as to Quality King in this case.

IT IS SO ORDERED.

DATED: 7/6/95

/s/ J. Spencer Letts
J. Spencer Letts
United States District Judge

APPENDIX C

NOT FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
DEC 16, 1996
Cathy A. Catterson, Clerk
U.S. COURT OF APPEALS

L'Anza Research International, Inc.,
Plaintiff-Appellee,
v.
Quality King Distributors, Inc.,
Defendant-Appellant.

NO. 95-56447
DC NO. CV-94-0841-JSL

ORDER

Before: D.W. NELSON, T.G. NELSON, and THOMAS, Circuit Judges.

The members of the panel that decided this case voted unanimously to deny the petition for rehearing. Judges T.G. Nelson and Thomas voted to reject the suggestion for rehearing en banc and Judge D.W. Nelson so recommends.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. (Fed.R. App. P. 35.)

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

APPENDIX D

UNITED STATES COURT OF APPEALS
THIRD CIRCUIT

No. 87-5439
(cite as 847 F.2d 1093 (3rd Cir. 1988)

SEBASTIAN INTERNATIONAL, INC.
v.
CONSUMER CONTACTS (PTY) LTD.,
d/b/a 3-D Marketing Services, Hiltexan Ltd.,
Fabric Limited, Quality King Manufacturing, Inc.
and Quality King Distributors, Inc.

Argued Jan. 19, 1988
Decided May 25, 1988

Before GIBBONS, Chief Judge, WEIS and GREENBERG, Circuit Judges.[7]

OPINION OF THE COURT

WEIS, Circuit Judge.

This case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the "gray market." We conclude that, having sold its goods with copyrighted labels to foreign distributors, the manufacturer is barred by the first sale doctrine from establishing infringement through an unauthorized importation. Consequently, we will vacate a preliminary injunction enjoining defendants from

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7 At the time of oral argument on this case, the Honorable Joseph F. Weis, Jr., was an active circuit judge. Since that time, Judge Weis has assumed senior status.

distributing within the United States, products that plaintiff had manufactured in this country and then exported.

Plaintiff, Sebastian International, is a California corporation which manufactures and markets personal care beauty supplies. The two items at issue here, WET and SHPRITZ FORTE, carry copyrights for the text and artistic content of their labels. Sebastian maintains that its marketing policy restricts retail sales to professional salons. This strategy is designed to establish Sebastian's image, enhance its reputation, and foster its commercial success.

In 1986, Sebastian entered into an oral contract with defendant Consumer Contacts (PTY), Ltd. d/b/a 3-D Marketing Services, in which 3-D agreed to distribute Sebastian beauty products to professional hair styling salons in South Africa, but not elsewhere. Sebastian shipped four containers of WET, SHPRITZ FORTE and other products valued at approximately $200,000 to 3-D in Edenvale, South Africa in January 1987. 3-D then reshipped the unopened containers back to the United States where customs released them on May 14, 1987.

One week later, Sebastian, alleging breach of contract, sought a preliminary injunction against distribution of the products in the United States. The district court granted a temporary restraining order and scheduled a hearing. Later Sebastian amended its complaint to allege that defendant Fabric, Ltd. had possession of the products, and that the copyrights on WET and SHPRITZ FORTE labels were being infringed.

When it became evident that Fabric had not known of the contractual limitations between Sebastian and 3-D, the district court lifted its initial restraining order. The court concluded, however, that the two Sebastian labels came within the purview of the Copyright Act and issued a preliminary injunction against infringement.

As the district court read the pertinent provisions of the Copyright Act of 1976, 17 U.S.C. §§ 106(3), 109(a), 602(a), the copyright holder has a right to control importation of copies, regardless of where they were made and despite the occurrence of a "first sale." After surveying the limited case law and the legislative history, the court understood the 1976 Act to create two types of distribution rights for copies; one tied to the act of vending and the other to the act of importation. In the court's view, vending was limited by the first sale doctrine; importation was not. Thus, Sebastian's right to control importation was "not extinguished when those goods were first sold regardless of where plaintiff's products were first sold or first manufactured." *Sebastian Int'l., Inc. v. Consumer Contact (PTY) Ltd.*, 664 F.Supp. 909, 920 (D.N.J.1987).

Defendants appeal the issuance of the preliminary injunction and present two issues for review. First, they contend that Sebastian did not demonstrate irreparable harm. Second, they argue that the first sale doctrine extinguishes the claim for copyright infringement. Defendants do not presently challenge the district court's determination that the labels had valid copyrights, having reserved that issue in the district court until the hearing on the permanent injunction. Consequently, that issue is not before us and in view of our disposition of this case, we do not discuss the irreparable injury aspect.

I

The Copyright Act is based on article I, section 8 of the United States Constitution, which grants Congress power to "Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." These monopoly privileges are

"neither unlimited nor primarily designed to provide a special private benefit." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984). Instead, they promote an important public purpose by encouraging the creative activity of authors and by allowing public access to "the products of their genius after the limited period of exclusive control has expired." *Id.*

The copyright statutes have been amended repeatedly in an attempt to balance the authors' interest in the control and exploitation of their writings with society's competing stake in the free flow of ideas, information and commerce. *Id.* Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

The Copyright Act of 1976, 17 U.S.C. §§ 101-810 (1982) (repealing Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075), contains three sections relevant to the issues presented here. The first, 17 U.S.C. § 106, states:

> "Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
> (1) to reproduce the copyrighted work in copies . . .
> * * * * * *
> (3) to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending . . ."

The distribution rights granted by subsection (3) are limited by the second provision, section 109(a), known as the "first sale" rule, which provides in pertinent part: "Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled,

without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . ."

The third provision, section 602(a), addresses importation and reads: "Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106. . . ."

A.

The first sale doctrine has a venerable lineage. The Supreme Court construed the right of exclusive sale held by copyright owners in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908), and decided that it did not create an additional prerogative enabling the holder to restrict future resales. The Court refused to find infringement when a retailer sold a novel at a price below that listed in the copyright notice, observing that copyright protection is wholly statutory and independent of any contractual rights. Because it had previously exercised the right to vend copies, the copyright owner could not retain any further control over subsequent sales. The Court phrased the issue in general terms, answering in the negative the question whether "the sole right to vend . . . secure[s] to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail . . . ?" *Id.* at 350, 28 S.Ct. at 726.

In *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir.1984) we commented that section 109(a) "is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. The first sale doctrine prevents the copyright owner from controlling the future

transfer of a particular copy once its material ownership has been transferred." *Id.* at 159 (citation omitted). *See also Columbia Pictures Indus. v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir.1986).

Similarly, the Court of Appeals for the Fifth Circuit wrote in *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir.1978), "[a]fter the first sale of a copy the copyright holder has no control over the occurrence or conditions of further sales of it. . . . The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce."

In describing the scope of section 109, the Senate Judiciary Committee reported:

> "Section 109(a) restates and confirms the principle that where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it."

S.Rep. No. 983, 93d Cong., 2d Sess. 131 (1974), *reprinted in* 13 Omnibus Copyright Revision Legislative History (1977).

The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property. *See Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881, 883 (E.D.Pa. 1964);

Colby, *The First Sale Doctrine — The Defense That Never Was?*, 32 J. Copyright Soc'y U.S.A. 77, 89 (1984). *See also* H.R.Rep. No. 987, 98th Cong., 2d Sess. 2, *reprinted in* 1984 U.S. Code Cong. & Admin.News 2898, 2899 ("the first sale doctrine has its roots in the English common law rule against restraints on alienation of property"); 2 M. Nimmer, *The Law of Copyright* § 8.12 (1987).

There is, however, an economic reason for the rule as well. As the district court said in *Burke & Van Heusen*, "the ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use." 233 F.Supp. at 884. *See Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir.1963). *See also Cosmair, Inc. v. Dynamite Enters. Corp.*, No. 85-0651, slip op. (S.D.Fla. Apr. 9, 1985) (1985 WL 2209).

B.

At first glance, section 602(a) — the importation clause — appears to clash with the first sale doctrine. We conclude, nonetheless, that the two provisions were intended to function interdependently and may be read in harmony with each other.

Section 602(a) creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission. Congress added this section to the Copyright Act in 1976, responding to copyright holders who sought protection from unauthorized importation of copies.

Preliminary discussions leading to general revision of the copyright law continued for over twenty years, incorporated a series of major studies, and involved numerous meetings with representatives of interested parties. *See Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159-61, 105 S.Ct. 638, 642-43, 83 L.Ed.2d 556 (1985). The hearings revealed the copyright owners' desire to prevent importation not only of "piratical copies" made without permission, but also of copies made by licensees in foreign countries. *See* Tyson & Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int'l L. & Com. Reg. 397, 402-206 (1985); Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J.Int'l L. & Pol. 113, 134-137 (1984).

The House Judiciary Committee acknowledged this concern when it explained, "[s]ection 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 169, *reprinted in* 1976 U.S. Code Cong. & Admin.News 5659, 5785. Only the second situation is presented here.

C.

The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways, although neither is conclusively supported by the statutory language or legislative history. The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right — one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and

allows them to prevent the unauthorized importation of copyrighted copies. The district court adopted that view in this case.

The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. This analysis poses a problem in the case of unauthorized imports of copies made abroad pursuant to a license restricting sales to a particular country. Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

Early in the drafting deliberations for the 1976 Act, the Copyright Office argued against imposing "a territorial restriction in a private contract upon third parties with no knowledge of the agreement." Tyson & Parker, *supra* at 403 (quoting Staff of House Comm. on Copyright Law Revisions, 87th Cong., lst Sess., Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Register's Report) 126 (Comm. Print 1961). The Office, however, later changed its position on the scope of section 602(a), finally agreeing that both authorized and unauthorized copies should be covered. Tyson & Paker, *supra* at 404.

The appellate courts have had little occasion to analyze the interplay between the first sale doctrine of section 109(a) and the importation right of section 602(a), but the district courts have struggled with the problem in a number of situations. In *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir.1984), the district court found infringement when copies, produce and sold exclusively in the Philippines under a license agreement, were imported into the

United States — where the plaintiff owned the sole distribution rights. The district court concluded that the words "lawfully made under this title" in section 109(a) grant first sale protection only to copies legally made and sold in the United States. *Id.* at 49.

IN *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J.1987), the court also found infringement when phonorecords manufactured under license in New Zealand were imported into the United States. The court reached that conclusion despite the compulsory licensing provision applicable to phonorecords, commenting that the preliminary negotiations behind sections 602(a) and 115 did not furnish a reliable gauge of congressional intent. In particular, the court was wary of statements made by special interest groups and was reluctant to consider such views as expressions of the congressional intent shaping the Copyright Act.

A similar problem arose in *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal.1986), when books lawfully made in England were imported into the United States, where the plaintiff held the copyrights. The district court, finding an infringement, decided that the first sale doctrine did not modify the importation restraints of section 602(a). *Id.* at 976-77.

In *Nintendo of America, Inc. v. Elcon Indus.*, 564 F.Supp. 937 (E.D.Mich.1982), the court enjoined the defendants from distributing electronic audio-visual games made in Japan under a license expressly limited to the territories of Japan. The agreement prohibited importation into the United States, where the plaintiff owned all the distribution rights under copyright. *But Cf. Neutrogena Corp. v. United States*, No. 2:88-0566-1, slip op. (D.S.C. Apr. 5, 1988) (first sale defense available where goods manufactured in United States and sold to defendant by third party); *Cosmair, Inc.*, slip op.,

(section 109 limits section 602 where products manufactured in the United States and re-imported).

Scorpio and *Harms*, although not binding on us, demonstrate a significant difference from the factual situation presented here. In those district court cases, the copies were produced abroad and the sales occurred overseas. The courts reasoned that the foreign origin of both manufacture and sale made the first sale doctrine inapplicable. However valid that interpretation of the "lawfully made under this title" language of section 109(a) — and we specifically do not pass upon it in this case — it does not affect our decision here.[8]

II.

The facts, seen here in the context of the first sale doctrine, are not complex. We do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner; instead, this case centers on actual copies of labels printed in this country by the copyright owner. Sebastian produced and sold the same copies which it now seeks to control.

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8 We confess some uneasiness with this construction of "lawfully made" because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.

Furthermore, we note that it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship. The Supreme Court has cautioned against applying doctrine formulated in one area to the other. *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 787 n. 19, 78 L.Ed.2d 574 (1984).

Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country,[9] clearly the copyright owner already has received its reward through the purchase price.

Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Consequently, we agree with the district court that the place of sale is not the critical factor in determining whether section 602(a) governs. We differ, however, with the district court's finding of infringement because, in our view, a first sale by the copyright owner extinguishes any right later to control importation of those copies.

Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the

9 Plaintiff concedes this point in its brief. "Sebastian submits that § 602(a) prohibits importation into the United States of products incorporating copyright materials *irrespective of where the copies were manufactured*, if as here (i) the importation is without the authority of the United states copyright owner and (ii) the "first sale" of the products does not occur in the United States." Br. for Appellee at 9.

exclusive [section 106(3)] right to distribute copies." Because that exclusive right is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.[10] The preliminary injunction was granted on the basis of an erroneous reading of the law and therefore must be vacated.

Although this case turns purely on copyright law, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. Various economic factors — including the manipulation of global currency standards — encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.

This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir.1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

10 This situation differs from that in which a licensee manufactures the copy. In that instance, the copyright holder does not own the tangible copy.

The order of the district court granting a preliminary injunction will be vacated, and the case will be remanded to the district court for disposition of the remaining issues.

APPENDIX E

Copyright Act of 1976
Title 17 U.S.C.

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly, and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

§ 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on —

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A(d)(2)(B),
whichever occurs first.

§ 602. Infringing importation of copies or phonorecords

(a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to —

(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;

(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).